

Bilger, Bruce

From: Richard A Lammers [Richard_A_Lammers@ei.enron.com]
Sent: Sunday, June 20, 1999 8:48 PM
To: Kent Castleman
Cc: John Novak; Bilger, Bruce; Carano, Boyd (New York); Nasim H Khan; Beth Rosen; Allen W Ueckert; Joe Kishkill; Christodoulou, Diomedes (Enron); Bannantine, Jim (Enron); tlindho@ei.enron.com; Ben F Glisan; Terence D'Souza; Stephen H Friedlander
Subject: Re: Selldown on Cuiaba I Interest



pic04975.pcx

Kent - how will the first right of purchas on any further enron purchases work ,why is it needed and when will it expire. Please keep friedlander and d'souza in the loop on any future correspondence on this subject.

Kent Castleman
06/20/99 06:07 PM

To: John Novak/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, bbilger@velaw.com, bcarano@velaw.com, Richard A Lammers/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Nasim H Khan/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Beth Rosen/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Allen Ueckert
cc: Joe Kishkill, Diomedes Christodoulou/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Jim Bannantine, Tod Lindholm, Ben F Glisan@ENRON_DEVELOPMENT
Subject: Re: Selldown on Cuiaba I Interest (Document link not converted)

Following are the commercial terms that I had promised. Following are some additional questions/issues that need to be addressed.

Commercial Terms for Sale

Sale and purchase of a 15.625% interest in IEPE-Empresa Produtorade Energia, a Brazilian limitada (EPE) by Enron do Brasil Holdings Investment Ltd. a Cayman Islands company, ("Seller") to [Martin investors Cayco] ("Purchaser") for US\$17,861,000 [amount will increase by transaction costs related to sale].

Purchaser will grant tag along rights related to the pro rata share of sub debt loans related to the equity interest purchased by the Purchaser retained by Enron.

Seller will grant Purchaser a Right of First Sale in the event that the Seller has an offer to sell any of its additional interest in EPE

Purchaser will commit to make it pro rata share of future cash calls related to its equity interest in EPE (similar to the Shareholder Funding Agreement signed by Shell)

Enron will provide the Purchaser loans to fund its share of future cash calls related to the Purchaser's equity interest in EPE, if necessary.

Purchaser will also purchase a 1% interest in Enron do Brazil Holdings Investment Ltd. but the Seller will retain a call on the 1% interest sold.

This will need to be a golden share type arrangement in that if the Purchaser still holds this interest 9 months from date of purchase they will have super majority rights and/or Board representation on the Enron do Brazil Holdings Investment Ltd.

Additional Questions/Issues

I talked to Rick Lammers about the potential for Shell right of first refusal. He stated that he did not believe that Shell will exercise their rights and if need be he can talk to his Shell counterpart to confirm. If need be can we sale the interest but if Shell wants to exercise its rights then it can purchase the interest from the Purchaser. Basically close our sale and then deal with the right of first refusal?

Need to determine how to get the investors return in the equation. Kent to discuss with Ben Glisan and Tod Lindholm.

**CONFIDENTIAL TREATMENT
REQUESTED BY
WILLIAMS & CONNOLLY LLP**

EVE 1068488

I will be in Sao Paulo on Monday and then probably flying to Houston to address these issues and get the transaction closed by the end of the month. If you have any questions, please call me in Sao Paulo at 011-55-11-5503-1195. Thanks for your help in getting this done in such a short time.

Kent

John Novak
06/17/99 07:23 PM

To: bbilger@velaw.com, bcarano@velaw.com
cc: Kent Castleman/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT

Subject: Selldown on Cuiaba I Interest

Bruce and Boyd,

Attached is the promised note from Kent. Bruce: I think we particularly need your input on whether the proposed structure would run afoul of Shell's pref rights under the Downstream Agreement/Letter Agreement (item 9 of Kent's message below). Boyd: I think the first step should be to see if anyone at V&E has a good form from a similar deal to start drafting from. As indicated in Kent's note, we intend to close June 30, so your prompt attention/response is much appreciated. Thanks.

Regards,
John

----- Forwarded by John Novak/ENRON_DEVELOPMENT on 06/17/99
05:14 PM -----

Kent Castleman
06/16/99 12:23 PM

To: Richard A Lammers/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Nasim H Khan/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, John Novak/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Beth Rosen/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Don Black, William O Butler/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Allen Ueckert, Florence Zoes/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Sue Frusco/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT
cc: Joe Kishkill, Diomedes Christodoulou/ENRON_DEVELOPMENT@ENRON_DEVELOPMENT, Jim Bannantine, Tod Lindholm, Paige Grumulaftis

Subject: Selldown on Cuiaba I Interest

I have talked to several of you individually but wanted to get an overall summary of what's going on regarding a structured sale of the 15% interest in Cuiaba in order to deconsolidate EPE and MTM the Cuiaba gas supply agreements in TBS.

I met with Ben Glisan and Anne Jaeger, ECM, to discuss a structure that may be available to act as a short term equity warehouse for the 15.625% interest that we need to sell to deconsolidate EPE (and MTM the gas supply contracts in TBS). There is a structure that ECM is currently working on for a Corp transaction that we could utilize and the transaction has a high probability of being completed this quarter (before 6/30). The sale will be at net book value (around \$16.5-17 million) and will have some features requiring EI to facilitate a sale of this interest on their behalf within the next 6-9 months or they will receive some sort of supermajority rights in our Holdco or some other trigger to get the investors comfortable that we will get the sale done to a permanent investor. The cost for this transaction from the investor will not be more than 15% annually but is still in negotiation. The following is a brief description of the transaction as I currently have it (but more that welcome other suggestions/ideas).

**CONFIDENTIAL TREATMENT
REQUESTED BY
WILLIAMS & CONNOLLY LLP**

Transaction Description

Sale of 15.625% interest in EPE and a 1% preferred interest in Enron do Brazil Holdings (1% interest will have certain supermajority rights if EPE interest is not resold within 6-9 months) at net book value + transaction costs. As mentioned above the investor may require a return greater than the current project return. The Holdco preferred interest is designed to give the investor the required return. We will size the preferred return to achieve the investors return.

Investor will have certain rights that will require EISC to resale the EPE interest within 6-9 months (currently working on the rights to make sure that we have sale treatment for accounting purposes while giving the investor assurance that there will be a sale in the). The intent is that this is a short term equity sale transaction until we can close a sale to a true long-term investor before the end of the year (possibly may extend deadline to 1/31/2000).

By EI only having a 50% investment in EPE, Enron can deconsolidate EPE prior to EPE debt drawdown (project debt going on Enron's balance sheet) as well as MTM on the Cuiaba gas supply agreements in TBS.

(Embedded image moved to file: pic04975.pcx)

To get this transaction done in the next 14 days following is an action item and question list (if I missed something please let me know ASAP) that needs to be resolved/addressed ASAP. This list also contains action items related to the MTM on the TBS supply agreements.

Sale of EPE equity interest

Do we want to sell a larger interest in EPE than the 15.625% interest necessary to deconsolidate?

Do we want to include a promote in the sales price of the interest to be sold?

Draft of commercial terms of Purchase and Sale agreement of EPE interest and golden share in our EPE Holdco (Kent to do tonight)

Determine preference rights of Holdco interest sold/amend Holdco equity structure to provide for preferred interest.

Determine whether any future equity funding requirements over the next 6-9 months (Allen Ueckert) and determine how to address to not have investor be required to pay additional funds. Look into whether Enron can loan the investor the \$s for the future equity commitments.

Tax impacts of sale for Enron. Confirm that we want this treated as a true tax sale. (Beth Rosen)

Should buyer hold EPE investment in a Cayco or should it use its US company. (Beth Rosen)

Determine actual NBV of investment for the sales price. Assume that we will include the costs of the transaction in the sales price so that we are breakeven on the sale. (Allen Ueckert)

Make sure that this sale is not impacted by Shell's rights regarding selling of an interest in EPE. (John Novak/V&E)

Send latest EPE model to ECM to model transaction for investor (done)

Discuss pricing of structure (return to investor is greater than current project return) with Glisan to see if we can get the investor return in line with the current project return.

TBS Gas Supply MTM

Obtain agreement with ECT Crude desk the minibook treatment of the crude position (Don Black/Bill Butler)

Get the TBS positions in the trading books (Florence Zoes/Paige Grumulaitas)

Obtain a value for the YPF option (Florence Zoes ?)

I'm sure that I left some people off the distribution list and if so please forward this to them. If you have any questions, or ideas please call me.
Kent

**CONFIDENTIAL TREATMENT
REQUESTED BY
WILLIAMS & CONNOLLY LLP**